

**MULTIMEDIA**



**UNIVERSITY**

**STUDENT ID NO**

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**MULTIMEDIA UNIVERSITY**

**FINAL EXAMINATION**

**TRIMESTER 2, 2020/2021**

**DBM5624 PRINCIPLE OF FINANCE**

(All Sections/Groups)

11 MARCH 2021

9.00 AM – 11.00 AM

(2 hours)

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**INSTRUCTIONS TO STUDENT**

1. This question paper consists of 3 pages excluding cover page. The formulae appendices are given.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.

*Instruction: Answer ALL questions.*

### QUESTION 1

Arisah is currently examining the market value of two different bonds, both were issued on 2018. First bond, is a 15 years bond, by MDR Berhad. It was issued with a coupon rate of 12 percent. This bond is currently making semiannual payments with a yield to maturity (YTM) of 8.5 percent. Second bond, issued by Romy Berhad. It is an 18 years' bonds. This bond has a yield to maturity (YTM) of 10 percent and its coupon rate is 7 percent with annual payments.

Both bonds were issued at par of RM1,000. Based on the information provided, answer the following questions:

- a) Which bonds has the highest current market value as at the year of 2020?  
(11 marks)
- b) For each bond, classify if the bond is selling at a premium, discount or at par.  
(3 marks)
- c) If for both bond, its yield to maturity is currently valued at 12 percent, explain the implications of your answers in (b).  
(2 marks)
- d) Based on your answer in (a), what is the percentage change in both of the bond's price over the past year?  
(8 marks)
- e) Which bond should Arisah choose to invest if she is an aggressive investor? (1 mark)

**[Total 25 Marks]**

### QUESTION 2

Mikin Syn Berhad is a famous children clothing line and the business has been growing at a phenomenal rate every year since its establishment in 2013. Its dividend had grown at 35 percent per year due to rapid expansion and explosive sales. As an investor, Fatin oversees that Mikin Syn's dividend is currently increasing at 30 percent per year where it will last for four more years and it shall drop to 20 percent per year. The latest dividend paid on this company's shares is RM5 per share, and its required return is 25 percent.

It is expected that the growth rate of 20 percent shall remain for quite a while. Fatin needs to know further information about this company's shares. Thus, she requires answers from questions below:

- a) Calculate the dividends for the upcoming four years.  
(10 marks)
- b) What is the total value of the stock as of today?  
(12 marks)
- c) If Fatin plans to buy 200 units of Mikin Syn Berhad's shares, how much should she pays for it?  
(3 marks)

**[Total 25 Marks]**

**Continued...**

**QUESTION 3**

Rostell Co. is a large stock-exchange listed company that currently considering three investment projects which required extensive evaluation. These projects are involved in oil exploration in Qatar. The projects are not divisible and after the projects ended it is unlikely that similar investment opportunities will occur. The company uses a discount rate of 12 percent per year in evaluating the projects. Below are the expected net cash flows (including residual values) for each projects:

Project	Crystal (RM'000)	Quartz (RM'000)	Stone (RM'000)
Outlay	-200,000	-300,000	-200,000
Year 1	75,000	130,000	40,000
Year 2	80,000	140,000	45,000
Year 3	85,000	150,000	50,000
Year 4	75,000	-	65,000
Year 5	-	-	50,000

For each of the project, you are required to:

- a) Calculate the following values for the investment evaluation:
  - i) Expected net present value (NPV) (16.5 marks)
  - ii) Expected profitability index (PI) (6 marks)
- b) Advise which investment project is financially acceptable. (2.5 marks)

**[Total 25 Marks]**

**QUESTION 4**

Kah Sing Holding is a listed company in Bursa Malaysia. The company plans to spend RM 20 million on expanding its existing business. The CEO has decided to issue 8 percent loan notes redeemable within 10 years. The current financial information for the company as follows:

Income Statement for last year	RM'000
Earnings before interest and tax	8,000
Interest	(600)
Profit Before Tax	7,400
Tax	(2,220)
Profit for the year	5,180

Balance Sheet for last year	RM'000	RM'000
Non-current assets	30,000	
Current assets	30,000	
Total assets		<b>60,000</b>
Equity and liabilities		
Ordinary shares, par value RM1	10,000	
Retained earnings	25,000	
Total equity		35,000

**Continued...**

8% loan notes	7,000	
10% preference shares, par value RM1	3,000	
Total non-current liabilities		10,000
Current liabilities		15,000
Total equity and liabilities		<b>60,000</b>

The current ordinary share price is RM3.50 and preference share price is RM0.80 per share. An ordinary dividend of RM0.40 per share has just been paid and expected to grow by 4 percent per year in the future. The loan notes have a current market price of RM110 per RM100 loan note and yield to maturity is 6 percent. The company pays tax rate at 30 percent. The company has no overdraft.

You are required to calculate:

- a) Market value of equity (2 marks)
- b) Market value of preference shares (2 marks)
- c) Market value of loan notes (2.5 marks)
- d) Total market value (2.5 marks)
- e) Cost of equity (2.5 marks)
- f) Cost of debt and cost of preference share (4 marks)
- g) Weighted Average Cost of Capital (WACC) (5.5 marks)
- h) What are the **FOUR (4)** factors that influence the company's WACC? (4 marks)

**[Total 25 Marks]**

**End of Paper**